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THIRTIETH MEETING OF THE CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

June 2-5, 1989

REPORT

BY THE

CHAIRMAN AND VICE CHAIRMAN

OF THE

SENATE DELEGATION

PURSUANT TO
PUBLIC LAW 42, 86TH CONGRESS

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SENATE DELEGATION

ATTENDING THE CONFERENCE

RICHARD BRYAN, Nevada, *Chairman*

TED STEVENS, Alaska, *Vice Chairman*

JAMES A. McCLURE, Idaho
CHARLES E. GRASSLEY, Iowa
TRENT LOTT, Mississippi

LETTER OF TRANSMITTAL

U.S. SENATE,
Washington, D.C., October 15, 1989.

Hon. DAN QUAYLE,
President, U.S. Senate.

DEAR MR. VICE PRESIDENT: Pursuant to Public Law 86-42, approved June 11, 1959, and as chairman and vice chairman of the Senate delegation, we have the honor to submit a report on the 30th meeting of the Canada-United States Interparliamentary Group which was held in Ottawa and Montebello, Canada, June 2-5, 1989.

RICHARD BRYAN,
U.S. Senator.

TED STEVENS,
U.S. Senator.

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BACKGROUND AND COMPOSITION OF DELEGATION

Public Law 86-42, adopted on June 11, 1959, authorizes U.S. participation in interparliamentary conferences with Canada. The law provides that members of the U.S. Congress are to be appointed to meet annually with representatives of the House of Commons and the Senate of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." The meetings are held alternatively in Canada and the United States.

UNITED STATES

Attending the meetings from the U.S. Senate were: Richard Bryan, Nevada, Co-Chairman; Ted Stevens, Alaska; James A. McClure, Idaho; Charles E. Grassley, Iowa; and Trent Lott, Mississippi.

The members from the House of Representatives were: Sam Gejdenson, Connecticut, Co-Chairman; J.J. Pickle, Texas; E. (Kika) de la Garza, Texas; John LaFalce, New York; Frank Guarini, New York; Mike Synar, Oklahoma; Peter DeFazio, Oregon; Frederick S. Upton, Michigan; James T. Walsh, New York; and Bill Paxon, New York.

CANADA

The members from the Canadian Senate were: James Balfour, Saskatchewan, Co-Chairman; E.W. Barootes, Saskatchewan; Royce Frith, Ontario; Daniel Hays, Alberta; Duff Roblin, Manitoba; John B. Stewart, Nova Scotia; and Peter Stollery, Ontario.

The House of Commons were represented by: Pat Nowlan, Nova Scotia, Co-Chairman; Warren Allmand, Quebec; Bill Attewell, Ontario; Lloyd Axworthy, Manitoba; Mr. Eugene Bellemare, Ontario; Bud Bird, New Brunswick; Coline Campbell, Nova Scotia; Stan Darling, Ontario; Ralph Ferguson, Ontario; Jim Fulton, British Columbia; Darryl Gray, Quebec; Bill Kempling, Ontario; David MacDonald, Ontario; Geoff Scott, Ontario; Barbara J. Sparrow, Alberta; Len Taylor, Saskatchewan; and David Worthy, British Columbia.

AGENDA

Committee I: Trade and Multilateral Issues

Implementation of Free Trade Agreement

Comparison of Federal subsidies in Canada and the United States

Uruguay Round

Bilateral Trade Issues—GATT case on West Coast salmon and herring, plywood, wool and textiles, agricultural concerns,

steel, customs administration, automobiles, softwood lumber, and financial services

Multilateral Issues:

(a) Implications of Perestroika for East-West relations, arms control and disarmament, and NATO (including burden-sharing); and

(b) North American responses to the "Europe 1992" project and prospects for increased international investments

Committee II: Environment, Cross Border, and Energy Issues

Environmental Issues:

(a) Status report on action in Canada and the United States to curb acid rain and progress toward realizing an accord

(b) Likely effects on North America of the climatic change due to the greenhouse effect and the depletion of the ozone layer; proposals for remedial action

(c) Transportation of petroleum products

(d) Export of hazardous waste products

Cross Border Issues:

(a) Yukon salmon negotiations

(b) East Coast fisheries enforcement

(c) Boundary disputes (Beaufort Sea, Dixon Entrance, Juan de Fuca, Machias Seal Island)

Energy Issues:

(a) Natural gas bilateral trade; natural gas pipelines, routes and regulatory roadblocks

(b) U.S. drilling plans in the Alaska National Wildlife Refuge (ANWR) and Canadian concerns for migratory caribou

Plenary

Health care costs and systems in Canada and the United States.

COMMITTEE I—TRADE AND MULTILATERAL ISSUES

Committee I discussed trade and multilateral issues. It was chaired by member of the House of Commons Pat Nowlan and by U.S. Representative Sam Gejdenson. Besides Mr. Nowlan, other members of the Canadian delegation serving on the Committee were Senators Duff Roblin, John Stewart, Peter Stollery, and members of the House of Commons Warren Allmand, Bill Attewell, Lloyd Axworthy, Bud Bird, Ralph Ferguson, Bill Kempling, Len Taylor, and David Worthy. U.S. members serving on the Committee were Representatives J.J. Pickle, John LaFalce, Frank Guarini, E (Kika) de la Garza, Frederick Upton, and Senators Richard Bryan, James McClure, and Charles E. Grassley.

Implementation of the Free Trade Agreement

Committee I opened its first session with a discussion of implementation of the Free Trade Agreement (FTA). A Canadian member explained that the Agreement was the central issue in the 1988 election because of concern that the FTA would hurt Canada economically, socially, and culturally—that Canadian business would not be competitive, Canadian social programs would be compromised, and Canadian culture would be swamped by an invasion of American culture. While these fears remain, they are not as strong as during the campaign. The progress and prospect of implementation appear reasonable. In March the two governments met to establish various working groups. More than 1,900 applications for early reduction of tariffs have been received.

Subsidies in the two countries need particular attention. An academic study which was undertaken specifically for this meeting destroys several myths—that the United States has clean hands and that subsidies have a significant impact on trade between the two countries. The truth is that both countries subsidize but not to the degree that is often alleged. An assessment of U.S. subsidies should include U.S. defense R&D spending. The FTA had a difficult birth but is coming along nicely.

An American delegate responded that if the Europeans can succeed in creating a free trade arrangement, then for sure the United States and Canada should be able to. Americans followed with interest Prime Minister Mulroney's close call in basing his political fortunes on the FTA. It is encouraging that our trade officials continue to work cooperatively on implementation and that the dispute resolution mechanism is being made into a serious operation. We still have specific bilateral trade issues to resolve, such as plywood, uranium, and fish.

An American delegate suggested he perceived a change in Canadian sentiment since the election—from whether to sign the FTA to how well it is implemented. In contrast, there was little public

interest in the United States over the FTA, and United States ratification was carried principally by the generally positive feelings in the United States toward Canada. There is little concern in the United States over implementation. He suggested that it is important to resolve the subsidy issue in the next 30 months while the President still has fast-track authority available. Furthermore, the faster tariffs are reduced, the better off both countries will be.

The American also said that it is urgent for the two neighbors to facilitate the flow of traffic across the border. Some backups are occurring at border crossings. Each bridge is controlled by a separate commission appointed by the bordering state and province. Some harmony needs to be brought across these various jurisdictions. Slowdowns at the border have resulted from United States efforts to block the entry of drugs from Canada and by Canadian efforts to reduce the shipment into Canada of hazardous waste products.

A Canadian delegate reported that the opposition parties saw the 1988 election as the most divisive in Canadian history. It was focused on one issue and essentially was a referendum on the Free Trade Agreement. Opposition to the FTA centered on concerns over culture and sovereignty. It was not based on protectionism. The opposition lost the election, but the Government did not win a majority. The two opposition parties won a majority of the vote, and they are monitoring implementation of the Agreement very closely.

Another Canadian asked what was meant by the phrase "the FTA is working well"—increased jobs, greater access to the United States market? He said that, so far, there has been no new United States investment in Canada but instead a shift of Canadian jobs and investment to the United States.

An American responded that, for the FTA to be "working well", it must be working to the advantage of both countries, as it can be revoked unilaterally by either party. A major concern in the debate in the United States was that the FTA might result in a halt in the flow of Canadian investment into the United States. In fact, the FTA has heightened awareness within each country of the other market.

An American member said he was not happy over the specifics of the FTA—Canadians got the advantage in agriculture and in oil and gas, both of critical interest to his state—but he supported it anyway because it was important to facilitate trade between the world's two largest trading partners and because it would promote better understanding. He expressed inability to comprehend the Canadian concern over the impact of the FTA on Canadian culture and social programs. A Canadian member expressed the same lack of understanding.

An American suggested that the concern may have resulted from the statement by the United States negotiator, Peter Murphy, that "everything was on the table." This statement was reported widely by the Canadian press, with frequent suggestions that it could cover social programs and culture. American officials never refuted that interpretation. A Canadian delegate said this concern also arose from the groundfish countervailing duty case, in which certain Canadian social programs were targeted as subsidies.

A Canadian member said the attitude in Canada has changed since the election. He reported that the opposition was not opposed to the enhancement of trade, but was concerned over peripheral issues. There is concern that Canadian business may claim that the high cost of Canadian social programs will make Canadian business uncompetitive under the FTA and therefore must be reduced. Furthermore, Canadian oil and gas interests have been trying for years to get out from Ottawa's control in order to be able to sell more anywhere they please. So, the concern is not so much over what the United States may do, but over what Canadians may do.

Another Canadian suggested that most of those attacking the Agreement are doing so academically, and that those in the business world support it. Rather than attacking Canadian social programs, some American businessmen have said they would invest in Canada because they prefer Canadian social programs because they don't have to argue with workers over social issues. The member said that during the 1988 campaign he challenged anyone to demonstrate how the FTA would endanger Canadian social programs, but the challenge was never taken up. And, when the FTA was attacked as a threat to Canadian culture, he asked: "what is culture? How do you identify it?"

A third Canadian explained that the Liberal Party was opposed to particular aspects of the Agreement, specifically that it should not cover social programs or energy. Canadian social programs have been attacked as subsidies in United States countervailing duty cases.

An American delegate asked whether he should be concerned that Canadians would attempt to sell Canadian social programs to the United States. A Canadian suggested that the debate over the impact of the FTA on Canadian social programs was turning into a monster and that he would not be surprised if the Americans returned to the United States to say that social programs should be on the table. He said that the FTA is the new economic horizon for Canada.

One Canadian member reported that not all members of the Liberal Party opposed the FTA, and another that the rhetoric did get carried away during the campaign and that the FTA would be an issue for years. The difficulty in defining subsidies will remain and there will be numerous practical problems in implementation.

Subsidies

A Canadian member commenced the discussion of subsidies. He suggested that chapter 19 of the Agreement opens the door to the fact that the FTA is an evolving arrangement. At the 1988 meeting of the Canada-United States Interparliamentary Group, the issue of subsidies was discussed in Committee I, and the members agreed to have a working paper produced for their consideration.

The study, produced by the Institute for Research on Public Policy and entitled "Subsidies and Unfair Trade Laws: The Canada-United States Dimension" covers Federal subsidies, not state and provincial or agricultural subsidies. What is most surprising about the study is that the data indicates that subsidies are not a significant factor in non-agricultural production—less than half

of 1 percent in the industrial and service sectors for the United States and 1 percent for Canada. So, what's the issue? What's the fuss? Under the 1984 data used in the study, the highest subsidy in the United States was in forestry, the subsidy for which was in the form of special capital gains treatment and accelerated depreciation (which has since been eliminated), but the calculation in the study does not include stumpage. If defense procurement were included, the overall United States subsidy level would rise to 2 percent. And, the data for Canada includes the National Energy Program, which has since been abolished. The highest subsidy for Canada is in fishing and hunting. The conclusion to be drawn from the study is that subsidies are not high and so differences between the two countries should be able to be resolved.

An American member said that the working group dealing with subsidies should move quickly and that the ball is now in Canada's court to set the agenda. Dealing with subsidies is the real crux to successful implementation of the FTA.

While a U.S. delegate suggested that Canada has an advantage in that the provinces provide considerable subsidies, several Canadian members noted that U.S. states and local communities offer investment incentive packages that amount to subsidies.

Members of both delegations agreed that the subsidy study should be extended to state and provincial subsidies. However, it was pointed out that a reveiw of state and provincial subsidies could be limitless. Negotiations should not be held up until all data is in, but should proceed incrementally by economic sector. A Canadian member supported the incremental approach.

Another Canadian said that what Canada wanted was assurance that its social programs would not be labelled as subsidies. One of his colleagues circulated a newspaper article, an interview with noted international trade experts, which he said demonstrated there was no threat to Canada's social programs from the FTA.

An American member noted that subsidies in agriculture amount to 19–20 percent of producers' income in Canada and about 16 percent in the United States, so they are at approximately equivalent levels. Agricultural subsidies will have to be discussed commodity-by-commodity.

The Uruguay Round

A Member of the Canadian delegation opened the discussion of the Uruguay Round by noting that the principal importance of this GATT negotiation is to keep the international trading system functioning. He noted four key aspects of the politics of the Uruguay Round:

> (1) With the effort to bring about Europe 92, it is hard to get European attention on the Uruguay Round; (2) The recent U.S. decision on Super 301 and the refusal of the United States to comply with certain GATT panel decisions are creating the impression that the United States, the world's largest trader, is not supporting the GATT system; (3) Western countries are being faced with the critical decision whether to include the Soviet Union and other Soviet bloc countries in the GATT system. It is obviously very difficult to bring into the trading

arrangement centralized economies, yet there is a clear desire to help support Gorbachev's effort at reform; and (4) The Third World debt overhang is hurting world trade and must be dealt with urgently.

A member of the American delegation agreed that the Third World debt problem had significantly hurt U.S. exports, particularly agricultural products. He noted that the U.S. Government is cooperating with other countries on trade issues and that the administration does not like Super 301, but that the Congress is and will continue to go its own way on certain issues. The basic issue in the Uruguay Round is agriculture, which essentially is the United States versus Europe. The press played up the lack of progress at the mid-term review, but failed to note that this was a mid-term review not the conclusion of the Uruguay Round. These trade negotiations will not establish a free trade agreement or a level of playing field but they do hold the possibility of making further progress in establishing a rational international trading system.

A Canadian member suggested that two of the most critical issues that will be addressed by the Uruguay Round are the definition of subsidy and reform of the GATT dispute resolution mechanisms.

Several Americans suggested that the Third World debt problem is the most serious threat to international trade and must be dealt with urgently.

Plywood and Softwood Lumber

An American delegate introduced the subject of plywood and softwood lumber. He explained that the United States has been using the same standard for plywood in cold climates for over 40 years with difficulties. American plywood standards are accepted in every country of the world except for Canada, which is the sole country to claim that it is not structurally sound. In fact, the only real difference between Canadian and U.S. standards is that trees grow differently in the two countries. Trees grow slower in Canada and therefore the knotholes in Canadian lumber are smaller. The Canadian standard is a cosmetic effort to cover what, in reality, is a protectionist standard. If the United States is to reduce its barriers to trade in plywood, then Canada must do the same.

With respect to softwood lumber, in 1987 the Canadian and U.S. governments signed a memorandum of understanding under which Canada levied an export tax on softwood lumber exports to the United States. There are currently two difficulties with respect to this MOU. One problem is pressure in Canada to repeal the MOU—in essence, to repeal the export tariff. The second problem concerns transshipment. Some provinces are required to impose the export levy; other provinces are not, depending on the level of their stumpage fees. Revenue Canada needs to enforce the requirement of documentation of province of origin in order to prevent fraudulent shipment of wood products into the United States.

A Canadian Member responded that the debate over plywood and softwood lumber, as the debate over the FTA itself, is like the debate between an elephant and a mouse. Canada has established certain standards for plywood and the United States should live by

those standards. We have signed an agreement and both sides should live by that agreement. We have had years of essentially free trade in softwood lumber and the United States needs Canadian lumber. With respect to the second softwood lumber case, many Canadians remain convinced that there is no basis for the subsidy charge. Considerable change has taken place since then. The industry has changed. There have been changes in the currency evaluation. The Canadian share of the U.S. market has declined from 33 percent to 28 percent today and U.S. mills have become more profitable, while in Canada there have been many closures. Therefore, the MOU should be reviewed.

The Canadian industry is opposed to the illegal transshipment of softwood lumber. It is not the industry but the middlemen, the brokers, who are engaging in this practice which appears to be insignificant in volume.

A member of the U.S. delegation said that Canada had failed to reconsider its plywood standards or to engage in an effort to develop joint standards. In fact, neither side is in compliance with the agreement with respect to plywood standards. He suggested that the United States does not want any review or change of the MOU because the result could be provinces returning to stumpage subsidy without negotiation.

A Canadian noted that the United States failed to establish the panel of experts on plywood which was required by the agreement. An American noted that the reason the United States has not adopted the tariff reduction on plywood is because Canada has failed to review its plywood standards. What the two countries have agreed to do is have forestry labs review and attempt to establish joint standards. A Member of the Canadian delegation noted that the Canadian housing organization did not review the plywood standard because it was unable to do so. The two countries have now established a binational industry panel to review and establish standards. An American delegate reported that the CMHC did not review the Canadian standard, it just came to a peremptory conclusion that the U.S. plywood standards do not meet Canadian standards.

A Canadian member noted that the purpose of the Free Trade Agreement is not to eliminate all subsidies but to determine which ones are acceptable, such as those that are required by the vagaries of Canadian geography and development. Another member of the Canadian delegation noted that plywood is regulated under the Free Trade Agreement whereas softwood lumber is regulated under the Memorandum of Understanding. In fact, what is under dispute with respect to plywood is only 30 percent of the Canadian market—that part dealing with commercial grade plywood—while the rest of the Canadian market is open to U.S. products.

An American responded that what is at issue is principle. There should be open U.S. access to the entire Canadian market. A Canadian suggested that what is really involved is that the U.S. industry wants to maintain the U.S. tariff on plywood of 20 percent.

AGRICULTURE

A U.S. participant introduced the topic of agriculture by noting that the agriculture industry in the United States took a rather passive attitude toward the Free Trade Agreement. The industry did not feel much was at stake in the FTA, although it recognized that the agreement does have a mechanism for discussion if trade between the two countries on agriculture gets out of balance.

There may be some suspicion in sectors of the industry that Canada got the better end of the deal on the FTA but it is not a high level concern at the moment. The delegate pointed out that a larger portion of U.S. GNP is accounted for by agriculture than is the case in Canada. Agricultural subsidies are about 20 percent of producers' income in Canada, slightly less than in the United States.

A Canadian delegate picked up the discussion with the comment that the agriculture industry in his country had improved greatly since the passage of the Canadian National Farm Products Act of 1972. With regard to poultry, there have been no government subsidies since 1975. Canada is not contributing to the world surplus. Regarding dairy, Canada only subsidizes industrial milk, not fluid milk produced for home consumption. Stability has been brought to the Canadian dairy sector. In fact, European countries have been talking about setting up a system similar to Canada's.

The hog industry is governed by a marketing board which can be considered a one-stop selling agency and which appears to be working well. 25–30 percent of Canada's high quality pork is exported to the United States. Canada's beef industry is having some problems with imported meat, including 1 million pounds a week from the United States, that is not marked and therefore cannot be distinguished from domestically produced beef. The delegate said that there is no objection to imported beef per se, but, since much of it is of an inferior quality, it should be properly marked.

Grains present United States-Canada trade relations with a sticky situation. In recent years Canadian grain producers have suffered bankruptcies and foreclosures due to high interest rates, low commodity prices, and drought. Additionally, Canadian farmers are frightened by the volume of U.S. grain trade and dislike any talk of dismantling the Canadian Wheat Board. As a result, grain producers were very vocal during the last election in Canada. They wanted to be exempt from the FTA, preferring multilateral forums like the GATT.

The Canadian Government maintains that it is making a good faith effort at all international forums with respect to grain trade. At the same time, it has asked the grain producers to bear the burden of reducing the national debt. Canada has eliminated the Western Grain Transportation Act subsidies for products shipped through West Coast ports to the United States, withheld payments for grain for one year, and has virtually eliminated the Special Grains program. These actions were taken to strengthen the position of Canada in international negotiations on agriculture.

The discussion then turned to the more general problem of worldwide surpluses in the face of hunger in the developing world. A recommendation was made by a Canadian participant to estab-

lish a working group within the United States-Canada Interparliamentary Group to study this problem.

A Canadian participant then raised an issue of contention between the United States and Canada; hog production. On May 2, 1989 the United States invoked Section 1313 of the Omnibus Trade Act stating that Canadian production is subsidized through a stabilization program that went national in March. The move surprised the Canadians who had assumed that such disputes would be addressed through the mechanisms of the new FTA. The Canadians feel that this action reflected a lack of good faith in light of the FTA and that the United States should have looked at the whole industry rather than a small sector of hog production. The U.S. Department of Commerce will review the issue and make a final determination July 17.

Steel

A United States participant opened the discussion with an explanation of the three options available to the United States when the current Voluntary Restraint Agreement (VRA) expires on September 30, 1989. Option one would be to extend the program for another 5 years, a position the steel producers favor. Option two, advocated by the steel distributors who complain about shortages, would be to extend the VRA for 3 years. Option three would be the complete elimination of the VRA altogether. This last option is the one being advanced by steel consumers who believe that enhanced competition would bring steel prices down. The speaker noted that there is no VRA with Canada, nor is one being contemplated.

A Canadian delegate responded with the comment that United States-Canada steel relations are very good. There is a high degree of cooperation between their respective steel caucuses. According to this delegate, this relationship is helped by the fact that Canada does not dump steel in the U.S. market, even when world surplus exists. Canada has also taken legislative steps to prevent other countries from, in effect, "laundering" their steel through Canada before shipment to the United States. This is accomplished by a new requirement that foreign galvanized steel be marked by country of origin so that a country such as Romania or Yugoslavia cannot pass its steel off as Canadian steel for entry into the United States. In cases where country of origin cannot be determined, Canada has simply kept the steel within its borders for its own use.

The steel industry in Canada has been modernizing in recent years. Most mills now use continuous casters, and workers have been retrained for the new technology wherever possible. Where the newer downsized steel industry cannot absorb retrained workers, those workers have been trained for other employment. Recycling has also been emphasized in recent years, with "mini-mills" being set up to use scrap steel. This has changed the industry.

An issue raised by another Canadian delegate was that of the new threat of countertrade in world steel trade. Also referred to as bartering, this is the practice of Japan and others of taking steel as payment for trucks or other finished products that they export. This is of particular concern to the United States because the steel received in barter often floats around the world's oceans before

ending up on the West Coast of the United States. This type of bartering, the Canadian delegate felt, could be the wave of the future as more and more countries become strapped for cash.

Automobiles

Committee I discussed the issue of bilateral trade in automobiles. The discussion centered principally on whether or not the level for North American content should be 50 or 60 percent.

A member of the American delegation suggested that what is involved, at least for Michigan, is 130,000 jobs. That is the major issue. A Canadian suggested that he felt 60 percent North American content was fair. He also said that what really concerned Canadians is the potential for non-American companies to operate under the Free Trade Agreement, but that this will be phased out by the FTA. There was also concern that the big three automobile manufacturers would seek to have their plants declared free trade zones and, therefore, be able to bring in parts duty-free. It was noted that what is evolving is a world automobile manufacturing system with multiple cooperative arrangements between different companies in various countries.

Financial Services

An American member opened the discussion of the treatment of financial services under the Free Trade Agreement. He explained that the Agreement establishes the principle of national treatment for financial services and that there is general support for that principle. Canada is looking for changes in U.S. law, in Glass-Steagall, to permit banks to engage in additional financial activities. However, there will be at least a year's postponement of reform of Glass-Steagall because of the urgency of dealing with the crisis in the thrift industry. The crisis emerged in 1986, and in 1987 the Congress recapitalized FSLIC to the tune of $10 billion, a grossly inadequate amount. The issue was swept under the rug by the Reagan administration and was ignored during the presidential campaign. There is now bipartisan support for Bush's willingness to address the problem, but disagreement over the correct approach. The cost under the President's proposal, which would be off-budget, is $90 billion. Some say a more realistic figure is $300 billion. The President's plan calls for a 50/50 cost sharing between the thrift industry and the taxpayer. A more realistic division puts the taxpayer carrying 90 percent of the burden. There is also a major debate over whether the financing should be on- or off-budget. The proposal of the House Banking Committee would put it off-budget, and the House Ways and Means Committee on-budget but exempt it from Gramm-Rudman budget deficit ceilings.

Another issue is regional equity. The thrift crisis is basically a Southwest problem, with 80 percent of the problem thrift institutions located in Texas and most of them being state-chartered, not federally-chartered. The debate centers on whether the rest of the country should bail out the Southwest, especially when the solution retains the dual banking system—why not make the responsible states bear the cost.

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There is also debate over capital requirements for financial institutions—should they be made retroactive and whether to abrogate existing contracts with Federal institutions. The proposed new requirements could bring down additional financial institutions and the accompanying abrogation of contracts is constitutionally questionable.

In fact, Glass-Steagall is more likely to change due to judicial interpretations, which have gradually expanded its scope, than to legislate action.

A Canadian member explained that in the 1960's the Canadian financial industry stopped borrowing 5-year money and lending it for 25 years. An American interjected that that was not the downfall of the U.S. industry, it was instead bad assets. The Canadian explained his country is dominated by six world class banks in Toronto and Montreal. What is needed is increased competition in the industry, which does not serve well the smaller business community. Canada has a tradition of large banks widely owned—no single interest can own more than 10 percent of a bank and foreign ownership cannot exceed 20 percent ownership. This later will change for Americans under the FTA.

An American member suggested that Canadians are unnecessarily worried about national treatment which provides a level playing field. The U.S. Government has allowed banks to expand too far into nonfinancial transactions. The institutions in trouble are centered in Texas, California, Florida, and Oklahoma. Another American suggested that it was not Federal law that was inadequate, but state law. The Federal Government failed in not preempting state law. A third American laid the source of the problem not on inadequate regulation but the deep real estate crisis in Texas and other states.

A Canadian delegate expressed concern that the traditional policy of Class A banks being broadly held is threatened by the Free Trade Agreement. With the first American take-over of a Canadian bank, the principle will be challenged. He said that Canada also has been experiencing financial troubles in the oil and gas industry. He explained that in Canada banks are regulated federally and trust companies provincially and what is needed is greater harmony in regulation and supervision.

Multilateral Issues

Implications of Perestroika for East-West Relations, Arms Control and Disarmament, and NATO (Including Burden-Sharing)

A Canadian delegate began the session on the implications of perestroika by expressing his amazement at the recent political openings in the Soviet Union and Eastern Europe. He expressed hope that these changes signified an opportunity to end the Cold War and the view that we not miss this "window of opportunity". Perhaps, he said, this thaw would allow the Soviet Union and the United States to focus their energies on resolving conflicts in the Third World, particularly in the Middle East and Africa. Soviet and American cooperation on reducing arms shipments and on halting nuclear weapons development and transfer missile technology through China and India and other troubled regions of the

world would be a great advance toward peace, he said. The Canadian Prime Minister is scheduled to visit the Soviet Union in November 1989, and increased East-West trade and exchange are expected to be on the agenda. The Canadian participant outlined the defense expenditures of Canada and made comparisons to the United States and the Soviet Union.

The Canadian defense budget totals $10.3 billion, representing 9.4 percent of the total budget and 2.6 percent of the GNP. Over $2.7 billion in defense expenditures will be reduced over the next 5 years and 14 military installations will be closed or reduced. Canada maintains 86,000 troops in the regular army and 60,000 troops in reserves. The United States on the other hand, devotes 6.7 percent of its GNP to defense. The Canadian delegate said that the recently released figures on Soviet military expenditures present a more realistic picture of Soviet defense costs. A U.S. delegate cautioned that official Soviet figures represent rougly one-half of the real cost of the Soviet defense commitment.

The Canadian speaker stated his view that the cost to Canada of maintaining troops in Europe was very high ($964 million annually to maintain 8,000 Canadian soldiers). He suggested that the United States and Canada join forces to pressure our European allies to take on more of the burden of protecting Western Europe. That way both the United States and Canada would be able to devote more resources to domestic concerns and to Third World development. The Canadian delegate clarified that the Canadian contribution to the U.N. Peacekeeping Operations would also be continued without diminution. A U.S. delegate noted that the United States has over 368,000 troops in Europe, without counting naval forces, and a cost reduction in maintaining these forces would be welcome to the U.S. defense budget.

A. U.S. delegate followed up with the observation that, while the President is moving in the right direction on arms limitation, he may be worried about a conservative reaction if he goes much further. Another concern, this delegate said, was the pressure in the United States to sustain weapons production. This, he said, illustrates the need for greater diversification of the U.S. economy away from defense industries. Despite this pressure, there is widespread political support among Americans for arms reductions.

Another U.S. delegate pointed out that no conventional weapons reduction agreement has yet been reached between the United States and the Soviet Union. Excitement, therefore, may be premature, particularly in light of the fact that the Soviet Union still has 55 divisions in the Far East with no reduction proposed for their land or sea systems in the Pacific Theater. The U.S. delegate noted that 8 out of 10 Soviet submarine missions are in the Pacific. Soviet Siberian forces are increasing with more forces moving east of the Urals. He stated that we need to pay attention to world balance and that real Soviet reduction of conventional forces must be a precursor to NATO reductions. The Canadian delegate concurred that U.S. and NATO cuts in conventional forces before Soviet reductions would be a mistake. Until worldwide reductions are achieved, he said, the West should maintain its vigilance.

Another Canadian delegate offered the view that Gorbachev's motives for achieving arms reductions are economic. The Soviet

economy, he noted, is dominated by its huge defense industrial base. This sector depletes the other sectors of the Soviet economy of critical human and material resources. Gorbachev clearly recognizes the cost to the Soviet economy of maintaining defense industries. A U.S. delegate said that many academics that he had spoken to were optimistic that Gorbachev's economic reforms will be continued by his successors as those likely to follow him in leadership think along similar lines.

NORTH AMERICAN RESPONSES TO EUROPE 1992

An American delegate opened the discussion on Europe 1992 by pointing out that, while everyone likes to talk about the huge China market, in reality, the PRC represents a billion people with no money. Europe, in contrast, is a continent of 320 million prosperous consumers. But Europe is not an open trading system, nor, according to the speaker, will it be after it reaches its goal of establishing a unified internal market in the year 1992.

Opening Europe to trade from the United States and Canada is vitally important, but it will not be easy under the provisions of Europe 1992. The concern is not so much for large multinational companies, many of which already have a presence in Europe, but for the smaller, non-international firms. Europe's local content rules have already forced American manufacturers to move to Europe. Europe 1992 will accelerate that trend.

Government procurement is another area of concern for those looking at the post-1992 European market. Apparently, the government procurement directives would allow European countries to continue to discriminate against American firms after 1992. That directive is likely to mean that non-European countries such as the United States and Canada have access to only 25 percent of Europe's $600 billion per year government procurement market. This stands in striking contrast to the U.S. Government procurement market, which is 80 percent open to outside bidding.

The United States, the American delegate continued, should be far more aggressive in pursuing its interests in the European market. But with only 25 American employees in Brussels monitoring the European Community, information on Europe 1992 is limited

The delegate suggested that since Europe is forming a strong trading bloc, it might be useful for the North American countries—Canada, the United States, and Mexico—to hold a trade conference to discuss their response to Europe 1992. A coordinated response to Europe 1992 on which interests are similar, might be a productive strategy.

In concluding, the American delegate offered his view that, while Europe 1992 might be characterized by general openness, there will be sectors that are virtually closed to outside competition through a rigid standards setting process and restricted government procurement. The United States has not adequately responded to the challenges of Europe 1992.

A Canadian delegate responded that his country also sees Europe 1992 as a cause for concern, particularly in light of the Canadian Government's unsuccessful attempt to expand exports to Europe

beyond primary resources. He said that Canada has historically relied on the British to gain entree into the European market, but, since the British have steadily withdrawn from the world scene, Canada has been left without a spokesman. So, for the past 40 years, since the end of World War II, Canada has not been successful in Europe. The speaker offered the Airbus and the European Space program as examples of Canada's failures to get itself included in European major economic enterprises. The last serious effort by Canada at expanding trade with Europe was made by former Prime Minister Trudeau. But that effort, dubbed "connecting link", failed because Europe proposed buying only natural resources from Canada on long-term, fixed price contracts. In more recent years Canada's agricultural exports to Europe such as wheat and dairy have suffered greatly. The delegate attributed much of that drop to the requirement that Canada act through EC offices rather than conduct bilateral trade relations with individual European countries.

Canada's trade with Europe has also suffered from two other factors: (a) the withdrawal of European powers from their colonial empires, which forced them to refocus their trade on Europe; and (b) the increase in trade between Canada and the United States which diverted Canada's energies from Europe.

The Canadian delegate agreed with the American delegate that the United States and Canada had a right to be very concerned about Europe 1992, which has the potential to be disastrous for both countries' trade with the continent. A partial solution, he suggested, may lie in three areas of the GATT negotiations: (a) the dispute settlement mechanism; (b) subsidies; and (c) services. The ability to resolve these issues will have a bearing on Europe 1992.

He noted, however, that the United States seems to have difficulty with GATT as a multilateral body. The United States appears to prefer a unilateral course, such as the 1988 Omnibus Trade Act, in which the United States is able to impose its own sanctions on countries without consultation with its allies.

An American participant responded by saying that it is because the United States and Canada are more open markets than our trading partners that we have difficulty in concensus-based multilateral organizations.

Another U.S. delegate offered that, while the Kennedy round of GATT negotiations was easy, the Tokyo round was harder and the current Uruguay round the most difficult. Still, he agreed that the GATT negotiations could be an answer to Europe 1992, if we could make progress. But, he warned, Europe 1992 is coming fast. He stated his view that, while Europe says that it will not become a "fortress Europe", it is certain to take care of its own interests and leave North America out. Europe, he said, will be more protectionist.

A Canadian discussant commented that Europe is protectionist because it cannot compete due to the high cost of maintaining its older infrastructure. He wondered how much cooperation there is at present between the United States and Canada with respect to Europe 1992. Both sides appeared to agree that what cooperation there is could be substantially enhanced to the benefit of both vis-a-vis Europe. The new United States-Canada Free Trade Agree-

ment, he added, would be good model of cooperation. An impetus for the Free Trade Agreement was, after all, Europe's plans to unify its markets in 1992.

As an aside, a U.S. participant asked his Canadian counterparts what they thought the impact of the 1988 Trade Act might be. A Canadian responded that the United States could expect a hostile reaction from the targetted nations. He expressed the hope, however, that negotiations can resolve trade disputes and that 18 months down the road the United States not get nasty if the targetted nations do not revise their trading practices.

COMMITTEE II—ENVIRONMENT, CROSS BORDER, AND ENERGY ISSUES

The Committee on Environment, Cross Border, and Energy Issues was co-chaired by Peter DeFazio and Barbara Sparrow. Besides Mr. DeFazio, other members of the U.S. delegation were Mike Synar, James Walsh, Bill Paxon, and Senators Ted Stevens and Trent Lott. In addition to Ms. Sparrow, the members of the Canadian delegation were Senators E.W. Barootes, Dan Hays, Royce Frith, and Stan Darling; and from the House of Commons Eugene Bellemare, Coline Campbell, Ralph Ferguson, Jim Fulton, Darryl Gray, David MacDonald, and Geoff Scott.

Acid Rain

An American delegate opened the discussion on acid rain with three general comments. Environmental issues are becoming increasingly important, there is an essential environmental component to most decisions, and most legislation contains a necessary environmental decision.

The delegate commended the Canadians for their actions on acid rain. The goal of Canada's acid rain abatement program is to reduce total Canadian sulfur dioxide emissions to 2.3 million tons by 1994, a reduction of 35 percent from actual 1980 levels and of 50 percent from regulatory ceilings allowed but not reached in 1980. Seven Canadian provinces from Saskatchewan east have committed themselves to this program. Canadians deserve praise for the actions they have taken.

The delegate concluded by saying that the mood in the United States is changing on the acid rain issue and that mood is decidedly in favor of legislation under the Bush administration and in the 101st Congress. Key changes in personnel in the Government are largely responsible for this change. Important bills have been introduced in the House of Representatives and action is expected, but a key question remains as to whether or not acid rain legislation and clean air legislation should be separated or combined. Mention was also made of the U.S. commitment to a $5 billion clean coal program.

A second American addressed the specifics of the current legislation before the Congress and indicated that a committee of the House of Representatives was expected to consider acid rain legislation later in June. The Bush administration has yet to finalize its legislative proposal, but there are two bills before the House that will be the subject of discussion if an executive branch proposal is not forthcoming.

The Sikorski-Waxman bill, which has nearly 150 cosponsors, calls for a 10 million ton reduction in sulfur dioxide emissions in 2 phases of 5 million tons each, by 1994 and 1998. The bill is based

on the rate of emissions and not on total tonnage reduction, so the bill cannot account for conservation. In addition, the bill does not account for growth in emissions in the 1990's. The bill includes a modest subsidy component, but for which almost no plant can qualify. Finally, the bill offers a free choice of controls, including low sulfur coal, gas, scrubbers, and other low cost approaches.

The Cooper bill offers a slightly different approach. It calls for a 10 million ton reduction in emissions but extends the final date to 2003. The bill has no subsidy provisions but does account for growth and conservation. It also has a free choice of controls.

The American participant then suggested that the expected House bill will be a combination of the Cooper and Sikorski-Waxman approaches with a compromise not too hard to achieve. The outcome will likely be a 10 million ton reduction by 2000. The question remains, however, as to whether or not the bill would require the trading of emissions from plants located in different states.

The participant concluded by stressing that after 8 years of trying with no success, there will be acid rain legislation passed. The difference is that President Bush wants a bill, not just more study. The bad news for Canada is that the target date is the year 2000, not 1995, but the good news is the promise of legislation.

A Canadian delegate asked what the trading of emissions meant. The American participant responded that some people envisage a nationwide shopping of emissions among plants, where the standard would be a 50 percent reduction in emissions but some plants would achieve more and others less through trading. The American delegate indicated that this approach would be an administrative nightmare but industry may want to buy into such an approach because its costs could be less.

A Canadian delegate quickly asked if the 50 percent reduction was firm. The American said that the tonnage commitment of 10 million tons was realistic as was the date of the year 2000, but the 50 percent reduction, while realistic, was not yet firm.

Another Canadian, in reply to the statements by the American delegates, expressed delight over the general conclusions and the progress which appeared to be occurring in the United States. He indicated that he had been to the United States several times and noted that American interest in, and knowledge of, acid rain has increased dramatically over the last few years.

The Canadian said that, when President Reagan was coming to Canada in 1985, many Canadians felt Canada had to put its money where its mouth was and pass laws and take remedial action. Because of the steps taken, emission standards are 3 times more stringent on the 1988 car models and for heavy trucks, and the 1989 models will have to pass stricter emission standards. He said that auto emissions accounted only for a small amount of acid rain. Low sulfur coal was helping reduce emissions, but Ohio coal which is high sulfur is also used in Canada. In his view, the big polluters were the smelters, not just power plants. He indicated that two plants in Canada were big offenders, Inco and Ontario Hydro. Those plants were being forced to lower emissions drastically.

The Canadian participant said that Quebec and Ontario had made big commitments to reduce emissions 47 percent and 66 per-

cent respectively. Other provinces' commitments are less significant, but overall there will be a 50 percent reduction by 1994. Quebec and Ontario will have to make key decisions on future sources of power. For Ontario, nuclear energy remains an option. He concluded that Canada had made significant commitments and that he hoped the Americans agreed.

Another Canadian delegate expressed some concern about the target date of 2000, saying there could be many changes and many government shifts in personnel and policy between now and then. The delegate then asked what the 50 percent reduction in emissions represented. Was it 50 percent of emissions existing in 2000 or 50 percent of today's emissions? Precisely how was the U.S. legislation going to account for growth?

An American delegate replied that National Academy of Sciences studies of the early 1980's were the basis for current data. Emissions are not meant to grow that fast because of clean coal goals, scrubbers, and other new techniques and policies. The U.S. legislation will mandate a 50 percent reduction of today's emissions. The delegate then stressed that probable U.S. legislation would focus on 10 million tons which is 50 percent of today's emissions. The legislation is not likely to go to 12 or 14 million tons targets because of exponential costs escalations. Each 2 million tons reduction over 9–10 million tons doubles the costs. A 10 million ton bill would cost $3–$5 billion per year, but a 14 million ton bill would cost $12–$20 billion.

A Canadian participant then asked why the legislation is unlikely to contain subsidies. An American colleague responded that this was largely a political issue. Some states have cheaper and more efficient energy and have reduced emissions. Those states cannot be asked to foot the bills for other areas. Many utilities have delayed taking actions to reduce emissions hoping for government action and help. In today's environment of tight budgets and a huge budget deficit, subsidies will be difficult.

A Canadian delegate indicated that in Canada, both the provinces and the Federal government are paying. The Canadians were able to sell subsidies to the public. Since Canada is not exporting power, this should not affect trade agreements. Another Canadian delegate indicated that there would not be a trade issue here because under GATT procedures national programs that allow subsidies which are generally available are permissible. It is selective or targeted subsidies that are subject to countervailing action.

Another Canadian participant then spoke of the fate of the maple sugar and syrup industries which have been devastated by acid rain. This problem must be attacked rationally, and the United States and Canada should work together—Quebec and Vermont, for example. It was estimated that 50 percent of the U.S. pollution comes into the Eastern Provinces of Canada and, from the Canadian viewpoint, the faster the United States acts, the better. The maple industry is dying out on both sides of the border.

An American delegate countered that the New York maple industry was as good and as large as the Vermont industry. The acid rain problem also impacts on tourism and fishing, and there are a lot of jobs in tourism.

Another American participant said that the United States must apologize for inaction on acid rain in the past several years, but the United States is now on the road with a three-prong approach—combined acid rain, clean air, and toxic waste legislation. The House of Representatives can be expected to send to the Senate this summer, legislation on the three issues, and a bill should reach the President by next spring. It was admitted that it sometimes takes being hit by a two-by-four to get attention and action.

This statement was appreciated by a Canadian participant but concern was expressed about what type of response the United States will make and how far the United States really would or could go. The pressures of industries might limit the response at a time when the environment is really being hit hard, and there are dead lakes, farm lands with very high acid rain content, and large biological costs. The Canadian expressed a willingness to bring colleagues to Washington to provide compelling testimony on these issues if it would help.

An American delegate suggested that a Canadian input in the United States debate already existed. Environmental groups are involved and are bringing a Canadian input. The Canadian Embassy and the Canadian Environment Minister are also present and have an impact. The Bush administration has proceeded slowly to date and if it continues to delay, it may not be part of the debate or legislation. The focus of the debate is who pays what in the United States, not whether the United States acts. That is a different debate than in the past.

A Canadian delegate wanted to know how the U.S. program would be phased in and how it would proceed, especially if there was not subsidies. An American responded that up to 20 plants, in 5 states—Missouri, Indiana, Illinois, Ohio, and Pennsylvania—were causing most of the problems. More than 40 percent of sulfur emissions come from those states. The delegate said many options exist for dealing with emission problems. Plants could be closed and energy sources switched. Scrubbers could be installed. Each state will be given a target for reductions and state legislatures must determine how to achieve them.

A Canadian delegate asked whether there will be precise annual targets and an American suggested targets will exist state-by-state. But a Canadian delegate stressed it was essential to lock people in and be as specific as possible or else there will be backsliding. An American delegate agreed but pointed out that industry had been neutralized by the President's commitment and the momentum for legislation cannot be reversed. The political pressures in the Northeast especially is being demanded. The legislation gives states a chance to devise plans for reducing emissions, but, if they do not act, the bill has its own standards. A Canadian delegate wanted to know why the acid rain bill and the Clean Air Act were being combined and what might be the implications of doing so. An American delegate answered that the ozone, acid rain, and toxic issues are being combined to get a national policy. By marrying these three issues, you can give everyone political cover. A Canadian expressed the concern of the larger clean air debate hurting efforts on the specific acid rain issue and creating the possible danger of

delay or watering down of acid rain legislation. The American participant indicated that some legislators wanted to address the issues separately but politically that cannot be done. The Canadians did not have to worry, the delegate argued. There was agreement on action on the ozone issue and the toxic issue and the debate on whether to act on acid rain was over. The question now was one of constructing the details.

Another American delegate suggested that one further area to explore was energy exchange across the border. Coordination was key and the United States and Canada should focus investment in energy transmission, not more energy generation. This is especially possible in the West. It was argued that legislation will drive the United States in that direction.

A Canadian delegate asked how this scheme might apply to the Northeast. An American colleague said there were concerns in New York about the importation of power into the state. Energy dependence is a fear of many people and frustrations are high, especially with two nuclear power plants idle.

Another Canadian delegate said that in Canada polls show that more than 80 percent of the people are willing to pay for reducing acid rain. Acid rain is affecting health, especially of senior citizens. The fear was expressed that a few key people could delay or frustrate a U.S. program on acid rain, and aren't the Americans worried.

An American delegate answered that health concerns were of deep interest to Americans. During the Reagan administration, acid rain was not a high priority and legislation was not possible because of a likely veto. Legislators had no real incentive to bring legislation forward. The situation is now changed. Thanks to Canadian help in keeping the issue at the forefront, we are now in the position of having legislation within several months. Legislators who may have previously opposed acid rain now support action because there are many tradeoffs in the three-prong approach to legislation on ozone, acid rain, and toxics.

A Canadian delegate stressed money could still be well spent on research, and what appears to be impossible or too costly today might be possible in the future. Options were mentioned, such as front end of the burner treatments as opposed to post-combustion treatments. An American delegate responded that the last decade had not been a good decade for exploring alternative energy sources or for pushing conservation. Many Americans feel that billions of dollars were wasted and the results were few. Clean coal may be an exception and technology is improving.

A Canadian participant asked if there was still an important role for conservation and wanted to know why speed limits were not kept at 55 miles per hour. A U.S. delegate explained that Americans wanted higher speeds and the 55 m.p.h. rule was quite unpopular. Energy and food are cheap in the United States compared to other countries and people are spoiled. Attempts at conservation in the 1970's were scrapped in the 1980's. A crisis will be needed to get back to an effective conservation program. The clean coal legislation is likely to cost $750 million to $1 billion in the next year. It is true that cuts in private research over the last decade have forced increases in government-sponsored research.

A Canadian and an American delegate exchanged brief comments on the Detroit incinerator which, in the view of Canada, needs scrubbers and other technologies to reduce emissions. The American agreed there is always a "not in my back year" mentality in which people are often reluctant to get into issues which do not affect them directly. Laws are needed, a Canadian delegate suggested, to prevent unneighborly actions.

An American concluded the discussion by suggesting that there is now a healthy debate in the United States on cost and benefit analyses of particular actions and on the health consequences of not acting soon. The debate is moving from whether or not to act to what are the costs and how do you pay for a program.

Climatic Change/Global Warming

A Canadian delegate commenced the discussion on climatic change by pointing out that the issue is closely tied to the preceding discussion concerning acid rain and the Clean Air Act. He explained that the signing of the Montreal Protocol in 1987 is viewed by Canadians as a significant step. Today, however, the standards set in place by that agreement are considered as minimal in Canada. While noting that the production ban on chlorofluorocarbons (CFCs) was also a positive step, he indicated that the Federal Government is playing catch up on this issue and unfortunately there seems to be a climate of uncertainty among scientists as to what is really happening.

Another Canadian delegate suggested that political concerns in Canada about environmental issues are much greater than in the United States and that the decade of the 1990's in Canada will be known as the "Green Decade". The delegate added that it was unfortunate that the United States chose not to participate in the recent environmental summit in The Hague.

Another member of the Canadian delegation indicated that it is vital that there be a consensus on the best way to make headway on this issue whether it be by strengthening international institutions which can enact conventions that are effective or by putting into place domestic initiatives. A rhetorical question was posed as to whether the political consensus that seemed to be forged on the acid rain problem could be carried forward with respect to CFCs. The Canadian delegate concluded by expressing that other countries, particularly Third World countries, must see leadership exhibited on this issue by the United States and Canada.

An American delegate indicated that he strongly agreed that the issues of acid rain and CFCs were interrelated, but that the critical question was whether the American people are at this point prepared to focus and address the global warming problem.

He continued by pointing out that the United States and Canada have exhibited leadership by calling for a production ban on CFCs. He noted, however, that to fully understand the prospective impact of possible global warming trends there must be a much larger base of scientific knowledge.

Another member of the American delegation indicated that the issue of climatic change will be a part of one of the acid rain bills considered by the Congress. Specifically, the bill would emphasize

four strategies for reducing the rate of global warming: (1) use fuels that reduce carbon dioxide emissions; (2) use clean coal technology; (3) eliminate CFCs; and, (4) slow tropical deforestation.

He noted that he had recently met with the Secretary of Energy to discuss the issue of global warming and to emphasize that not only the United States and Canada but also the Soviet Union and China must take the lead in developing technologies (greater energy efficiency, renewable fuels, substitutes for CFCs). He said as well that the United States and Canada must be in the forefront of assisting developing countries to modernize in an environmentally sustainable manner.

A Canadian delegate interjected at that point that the Canadians were receiving some pressure on the issue of tropical deforestation and asked if the Americans were in favor of conditioning loans from multilateral lending institutions on improvements by developing countries in this area.

An American delegate responded there indeed was pressure to condition loans on the tropical deforestation question. He added that the United States and Canada must show that developing countries can reforest their forests as our two nations have done. A Canadian delegate expressed that it could be counterproductive to dictate terms to Third World countries on this matter, particularly if those nations viewed it as stunting their economic development.

Another Canadian delegate pointed out that the debate on fossil fuel emissions is just beginning. He indicated that it was important that a cost-benefit analysis be undertaken to determine the best replacement fuel. The delegate also asked how extensive the use of solar energy was in the United States. He noted that it was underutilized at this point in Canada.

An American responded by indicating that regrettably research/development in alternate energy forms had dropped from 30 to 70 percent in the United States. The delegate explained that, as long as the cost of oil remained inexpensive, this would be true. He suggested that the future would be in enhanced oil recovery and that investment in solar/geothermal areas should be left to the private sector.

Transportation of Petroleum Products by Tanker (*Valdez* Oil Spill)

An American delegate began the discussion by noting that the Valdez oil spill was the first spill in 16 years in that area. He expressed the view that it was an extremely unfortunate incident that could have been avoided.

He indicated that as the tanker exited Prince William Sound, the vessel, which was 10 miles off course, hit a reef at high tide at 12:30 a.m. rupturing 14 holds. Approximately 12 million gallons of oil gushed into the sea in the first 3–4 hours. He said that little was done in the first 3 days to stem the flow of oil as there was indecision on the matter of using oil dispersants which are effective only in certain tide, wind and water conditions. There was also serious doubt about the availability of an adequate supply of dispersants for a rapid response.

As of June 2, 40 percent of the oil had been collected or evaporated but there existed over 900 miles of oiled beach. He said that the clean up crews were now engaged in removing the oil from those beaches.

He continued by pointing out that, unexpectedly but fortunately, all the hatcheries were able to release their fry. However, herring season had to be cancelled and halibut season was curtailed. The fish were not affected but the fishermen would have to travel through the spill to get to the fishing waters.

He estimated that 799–800 of 20,000 otters were lost and that about 20,000 of 15 million migrating birds were killed. He added that authorities had received reports of floundering whales but there was no evidence to this point that any had been affected. He also noted that one of the major problems now is that bears and eagles were ill from eating contaminated birds.

The American delegate suggested there were several lessons to be learned from the tragedy. First and foremost, he said, the accident did not represent a breakdown of the entire system but rather an isolated case involving the use of alcohol. He said that laws should be changed substantially regarding tests for alcohol abuse and that emergency testing of captains should begin immediately.

Second, he suggested that national response teams for spills in excess of 1 million barrels be instituted. He thought that these teams should be stationed in designated spill stations along the coast in Alaska and Canada.

Third, the American delegate suggested that the Coast Guard be given a greater role and discretion in the containment and prevention of oil spills. He strongly urged that prevention be the primary avenue of dealing with this matter.

Fourth, he argued that it was imperative that there be improvements in oil containment and skimming equipment. In 1973 tankers held 100,000 barrels of oil; now there are tankers which hold up to 1.2 million barrels. The booms and containment equipment which were adequate for a 50,000 barrel spill no longer are sufficient for the supertankers.

He noted that one pisitive aspect of the spill was that we learned that hopper dredges which are used to dredge bottom lands could be inverted and used to remove the oil from the surface.

A Canadian delegate indicated that his constituents in British Columbia want a public inquiry into the question of containment and prevention. Additionally, he suggested that studies be prepared addressing the question of hull design (one hull versus double-hulling) and better bulk-heading.

He also suggested that Canadian fishermen would ask for long-term studies examining the effect of the spill on halibut. He thought that another lesson learned should be that a Alaska-British Columbia-Ottawa-Washington hot line be instituted to better coordinate oil containment strategy in the wake of a major oil spill. Finally, he added that both nations should take a look at greater use of marker buoys in order that ships and airplanes be able to find the parameters of a spill.

An American delegate responded by pointing out it was not fully apparent that a double-hulled vessel would have made a difference in this case. He agreed that further research was necessary to see

if it would help in the future. He added that perhaps it was time to legislate limiting the size of the tankers as it was apparent that the grounding of tankers, not collision, is the major reason for spills.

Finally an American delegate said that the larger question involving the Valdez spill is, if it had been a company other than Exxon that did not have the resources to assume liability for the damages, who would have paid for the cleanup.

Export of Hazardous Waste

An American delegate opened the discussion by explaining that PCBs were being shipped to Canada from the United States in oil shipments. EPA was supposed to issue regulations addressing this problem in 1988 but has failed to do so. EPA has only 50 investigations nationwide to review violations. There is no tracking and very limited spot checking. The illegal shipping of PCBs presents opportunities for large profits for organized crime and there is significant evidence that they have been taking advantage of the opportunities. To dispose of PCBs legally would cost $800 per ton.

A Canadian delegate said that the Canadian Environmental Minister has decided to clamp down on the illegal dumping of PCBs. It is imperative that action be taken quickly. Another Canadian delegate complimented another American delegate for his efforts in uncovering the illegal shipments of PCBs in oil from the United States to Canada. The Government has had to invoke Canadian law to investigate companies which receive hazardous waste from U.S. subsidiaries.

A 1986 agreement between Canada and the United States focused on who ships, how much they ship, and what they ship. However, there is no enforcement and there are gray areas in terms of jurisdiction and regulatory regimes. The criminal issue adds new issues not addressed in the 1986 agreement. The delegate suggested the need for "cradle to grave" handling of the PCBs and for unification between the United States and Canada in handling this problem. He also agreed that there was a need for better enforcement.

An American delegate expressed the need to distinguish between PCBs and hazardous waste. We have not adequately addressed PCBs. There are complex financial relationships among the companies involved with PCBs. This allows for the "laundering" of waste, especially in the absence of good records. The United States only regulates PCBs at 50 parts per billion. It is difficult to determine whether the problem derives from a particular substance such as oil not being in compliance, or whether the records of compliance are poor. It is difficult for the United States to determine the quantities of PCBs being shipped to Canada. For example, it is unclear whether PCBs are entering U.S. oil refineries. A GAO report on the scope of the problem has been requested.

The delegate recommended several steps: (1) certification of PCB dealers; (2) bonding of PCB dealers; and (3) manifesting/record keeping of PCB shipments. He also noted the need for information sharing between countries, better border inspections, and the creation of a uniform manifest between countries.

The same delegate made a presentation on hazardous waste. The United States produces 250 million tons of hazardous waste per year. Ninety-eight percent of this waste is disposed of on site. Eighty percent of the off-site disposal (140,000 tons) is sent to Canada. The United States recognizes that it has not done a good job in controlling hazardous waste. The member has introduced the Waste Export Control Act in the House of Representatives. It would require: (1) an international agreement between the United States and the importing country; (2) an EPA permit prior to export; (3) user fees paid by exporters to pay for administering the program; and (4) liability of exporters for damage done in the importing country.

Disposal companies are concerned that the legislation will make exporting difficult. The bill is intended to make the export of waste safe, not easy. Environments in Canada would like a total ban on exports of waste. This goes too far—if one country develops a better way of dealing with waste, both countries should have access to it. By requiring that any country to which waste is exported have a regulatory scheme as restrictive as the U.S. system, the bill is not trying to impose its standards on Canada. It is U.S. waste that the bill regulates. A Canadian delegate asked why waste should be exported at all. An American delegate responded that if Canada wanted to stop such imports, it could do so.

Canadian delegate said that the idea of common manifests might be difficult but is worth pursuing. An American delegate responded that a common manifest is necessary to track hazardous waste, to help out border officials, and to identify what is in each shipment. A Canadian delegate said that key provinces and states should also be involved.

A U.S. delegate said that it is necessary to decrease the imbalance between the waste shipped from the United States and received by Canada. The United States sends too much and Canada receives too much. In response to a question from a Canadian delegate, a U.S. delegate stated that PCBs had been discovered in oil that was being shipped about 4 years ago. He said that it is necessary for Canada to have a strict standard for dealing with waste so as not to encourage its export from the United States.

A Canadian delegate said that in 1982, 80 percent of Canada's hazardous waste was disposed of improperly. Canada does not have the capacity to deal with disposal.

In response to a question from a Canadian delegate, an American stated that it is very hard to define what is hazardous waste. At a minimum, we must identify what is in each shipment.

An American delegate asked what Canada is doing to dispose of all types of waste, including nuclear. A Canadian delegate questioned whether the technology is available to deal with waste. Another Canadian delegate said that we must address the black market that exists for the illegal disposal of waste. With respect to the disposal of nuclear waste, an American delegate said that science had overtaken politics and that much unfortunately was being neglected.

The committee discussion of the export of hazardous waste was reported to the plenary session. A Canadian delegate said that there was agreement among the delegates to bring the issue of haz-

ardous waste exports to the attention of EPA and Canada's Minister of the Environment. He said that there were too many regulatory regimes which lead to confusion. What is needed is uniformity in the manifests used at the border.

An American delegate concurred that the uniformity of manifests would help control shipments of waste. It is a necessary aid for border officials. The United States should not ship hazardous waste to a country that does not have regulatory requirements as stringent as those found in the United States.

Yukon Salmon Negotiations

A Canadian delegate said that negotiations over Yukon Salmon have been going on for four years. The Yukon River is half in Canada and half in the United States. There has been some progress, but the fisheries take much more than half of the catch. There needs to be an agreement on conservation, recreation, and commercial uses. There are two key issues: (1) What is each country's share to be? We are moving toward the natural justice rule (country of origin) as a basis for determining each country's share; and (2) How can we improve conservation? It will take at least until the year 2000, even if we reach agreement now. In the past, many meetings have not gone well. Maybe legislation can play a role.

An American delegate said that there is no historic fishery on the Canadian side. He said that the U.S. courts have held that we cannot interfere with subsistence fishermen and have made it tougher for conservation. The natural justice rule might be inconsistent with arguments made to the Koreans and Japanese negotiating fishery jurisdictional boundaries. He concluded by saying that the present treaty seems to be working.

East Coast Fisheries Enforcement

A Canadian delegate commenced the discussion by noting that the maritime boundary line between the United States and Canada in the Georges Bank area has taken some getting used to by elements of both the United States and Canadian fishing industries. The delegate continued by adding that in an effort to better enforce the fishing zone set by the agreement, Canada will begin to utilize a helicopter in patrolling the zone.

Another member of the Canadian delegation explained that Canada has an overabundance of fishing vessels and processing labs. He pointed out that it is essential that Canadian fishermen begin to understand that waters can be overfished. He suggested that fishermen must be educated to explore new options, such as developing tertiary products. He also noted that fishermen must be convinced to be more conservation-minded.

An American delegate responded that the 200-mile limit is conservation-oriented as it allows the fish to replenish themselves. He argued that Canada should limit the use of trawler processors so areas cannot be overfished.

The American delegate also suggested that Canada and United States should work to internationalize the navigational aids on vessels in order that it be easier for all parties to be more certain of

their position within the fishing zone limits and thereby avoid disputes.

A Canadian delegate urged the United States to work with Canada to coordinate efforts between the two nations before 1992 as Europe will be making great efforts to enter the Canadian-United States fishing market.

An American delegate pointed out that there is another important fishing area in the world—the Gulf. He explained that Gulf fishermen were working to find new ways to process and market products to Japan. In particular, he suggested that they have had great success in aquaculture with respect to shrimp, catfish, and redfish.

A Canadian delegate responded that Canadians were getting more and more involved in aquaculture (salmon, trout) but that it was important to work on the conversation-side as well.

Maritime Boundary Disputes

The United States and Canada have four unresolved maritime boundary disputes. The two most important are in the Beaufort Sea, where there may be oil and gas deposits in the large disputed area, and in the Dixon Entrance at the southern end of the Alaskan panhandle where there is a potential for conflict over fishing rights in the disputed area.

In addition, there are disputes concerning the boundary seaward of the Strait of Juan de Fuca off the coast of the State of Washington and the Province of British Columbia and in the northern Gulf of Maine area, where a small area involving a sovereignty dispute over Machias Seal Island and North Rock remains in contention even though most of the boundary was delimited in 1984 by a decision of the International Court of Justice.

A Canadian delegate opened the discussion by briefly describing these four disputes. He indicated that these issues do not have the passion today that they once had and that, while the details were important for some, these disputes were more political issues. All of these disputes involve water, but land figures in each of them. There are several choices as a base for a claim, including the intermediate line, but some want to use the sinvousities as a starting point.

The delegate said several of these disputes result from differing interpretations of earlier treaties and arbitrations. The boundary in the Strait of Juan de Fuca, for example, was settled in the 19th century but the question arose as to how you treated the westward extension. Does one use the eastward line or does one follow the sinvousities? In the case of the Dixon Entrance, there was a 1903 arbitration award. The delegate said the Canadians see that award as a land and sea award and view it as an appropriate border. The United States says that the 1903 award was not intended to set a maritime boundary, only a land border, and the U.S. position is that an equidistant line is appropriate for the maritime boundary.

The Canadian participant said in the case of the Beaufort Sea, the Canadians believe that the Alaska-Yukon land boundary, which follows the 141st meridian of longitude, should be extended into the Beaufort Sea along the meridian. The U.S. position is that

the 141st meridian was intended only as a land boundary and that the maritime boundary should be drawn as an equidistant line which extends to the northeast.

The Canadian delegate suggested that these were not critical issues today, but that with new governments elected in both Canada and the United States, the time might be ripe for progress. The delegate cautioned that both sides should be careful in giving leases for drilling in disputed areas. It was suggested that none of these issues will likely be settled without arbitration. In conclusion, the Canadian participant said Canada was right now in an arbitration fight with France, so from Canada's perspective, there may be a desire to wait on another arbitration case. In this situation, both sides should consult on these issues and avoid preemptive actions in disputed areas.

An American delegate replied that his Canadian colleague had accurately represented the issues. He said the United States had made an important concession on the Gulf of Maine dispute in recognizing the jurisdiction of the International Court of Justice and that should be understood. There are sensitivities on these disputes because of oil, gas, and fishing rights. He said that, if leases are given as apparently the Canadians have done in the Beaufort Sea area, the United States will have to move toward some action.

A second American delegate said that, in the view of the State of Alaska, the Beaufort Sea dispute had been settled at one time and that hope exists that it would be possible to get back to that point. The delegate also indicated that the United States has invested a lot of money in the Beaufort Sea area, but it had not been profitable. He thought the Canadians would likely reach a similar conclusion.

Another American asked whether these disputes were long-term issues. A Canadian delegate said they all had long histories and, in the case of Dixon Entrance, the issue went back to the early 1800's.

Another Canadian delegate said that the equidistant approach would not work in the Gulf of Maine but it might work elsewhere, not necessarily to the advantage of the same side. An American participant concluded that these issues should be solvable and that the two countries should work toward creating an environment in which they could be addressed.

Natural Gas Trade

A member of the Canadian delegation opened the discussion on natural gas trade by explaining that, from the Canadian perspective, the main question with respect to natural gas trade was the levels of exports of their product to the United States market. He said that the Federal Energy Regulatory Commission (FERC) was still placing impediments in the way of Canadian gas exports. He noted that Canadians see the United States market as continuing to grow and that Canadians want to continue to export at maximum levels.

With respect to overall Canadian energy policy, the delegate said that Canada has committed itself to a market-driven policy. As a member of the opposition, the delegate questioned whether this was a good strategy for Canada.

Another Canadian delegate interjected at that point that he shared some of the same concerns, particularly with regard to FERC. He said he expected a decision from FERC soon regarding Canadian gas exports. The delegate continued by noting that the Northeast United States is the last major market where gas could be exported to the United States. He said that Canada would incur great costs to supply gas from Midwest Canada to Northeast United States.

The Canadian delegate indicated that he could not agree with his colleague's statement regarding Canada's overall energy policy. He said that a decision had been made to switch to a market-driven arrangement and that, while prices were down at this time, they should rise. He made the point that in a sense Canada was cutting central authority in return for the security of a vast U.S. market.

An American delegate responded that he was as unhappy as the Canadians with the pace and substance of FERC rulings. He explained that the United States was in the process of lifting all controls on natural gas but cautioned that it would be a process which would take at least 3 years. He noted that deregulating natural gas would obviously reduce the influence of FERC.

He indicated as well that it was his view that natural gas will be the fuel of the future and that there was undoubtedly a big market for Canadian gas in the Northeast United States. The American delegate concluded by asking the Canadians for an outline of where they thought FERC had been unfair in its rulings and counseled the Canadians to be patient during the process of natural gas deregulation.

A Canadian delegate pointed out that he found it disturbing that Canada was entering into long-term contracts for gas which could leave the country in a pinch in the short term.

Another Canadian delegate responded to his colleague by pointing out that the NEB will continue to monitor natural gas trade. He said that the NEBs power was eclipsed only by taking away its right to reject export licenses. He assured his colleague that the NEB had residual authority to insure that an adequate supply of gas would exist for Canada.

An American delegate responded by indicating that determining Canada's natural gas policy was Canada's business. But he urged that from the U.S. perspective any policy should reflect stability rather than erratic changes.

Another member of the American delegation added that there has been a tremendous fluctuation in the gas markets from shortage to perceived surplus. He pointed out that Canada has tremendous reserves and that the United States welcomes Canada's efforts to increase exports to the United States.

Arctic National Wildlife Refuge (ANWR)

A Canadian delegate expressed concern regarding the impact of drillings in ANWR on the rights of natives who depend on caribou for subsistence.

An American delegate stated that caribou is a non-issue. The size of the herd has increased 10 times in Prudhoe Bay since the pipe-

line went into place and the native population in the United States is quite satisfied.

The American delegate said that the caribou are living on a special grass developed at the University of Alaska. He pointed out that the United States does not allow the commercial sale of caribou meat, while Canada does. As a result, Canadians have a severe impact on caribou. The pipeline will not stop the migration of caribou and therefore drilling at ANWR will not interfere with subsistence uses of caribou.

The Canadians have drilled in many environmentally sensitive areas but have found only dry holes. Drilling at ANWR will have almost no effect on the environment unless large amounts of oil are discovered. The holes themselves will have little impact on the environment. As a result of the Exxon oil spill, any decision to drill at ANWR is now on hold. Industry must restore the credibility of its contingency plans.

Another American delegate said that the House Interior Committee held hearings last Congress which addressed the question of the effects of drilling on the caribou herd. There is a difference of opinion in Congress and between Congress and the administration on the effects of drilling on the caribou. Many in Congress believe that drilling will harm the caribou and interrupt their migration patterns. There has been a significant environmental impact on Prudhoe Bay as a result of drilling. We would see the same negative effects at ANWR if drilling were permitted there. Because of the Exxon oil spill, there will be no further hearings this year and probably no action in this Congress on legislation on ANWR.

The first American delegate responded that eventually ANWR will be explored. There are potentially very large quantities of oil. With decreased oil now going into the pipeline at Prudhoe Bay, there is an increased need for oil from ANWR. In fact, in a few years people will be begging for Alaskan oil. The State of Alaska and the oil companies will not agree to the emergency development of oil and gas. The development of oil and gas will be done in an environmentally sensitive way. The environmental record at Prudhoe Bay has been excellent. He said that before drilling is completed, we will have taken 10 billion barrels out of Prudhoe Bay. Prior to drilling, it had been predicted that there was a 1-percent chance of 1 billion barrels.

A Canadian delegate asked if the overland delivery of oil would be considered if oil was found at ANWR. An American delegate said that, although the pipeline is getting expensive to operate, ANWR is close to Prudhoe and would be accessible to the pipeline if oil is found.

When a Canadian delegate expressed concern with potential drilling at Georges Bank, an American delegate responded that they should look at drilling in Louisiana. There has been lots of drilling and it hasn't hurt the environment.

Concern about escalating medical costs and the 35–37 million persons in the United States who lack any health insurance prompted at U.S. request for a presentation and plenary discussion of Canada's health system. Canada now provides universal access to basic health care services at a cost of less than 9 percent of GNP, compared with the over 11 percent of GNP in the United States currently going to medical services.

Mr. W. Vickery Stoughton, President and CEO of Toronto General Hospital and formerly Director of the Peter Bent Brigham Hospital in Boston, Massachusetts, addressed the meeting, providing an overview of the Canadian health system and observations on its strengths and weaknesses. He noted that his perspective had been formulated over the 8 years he had worked in Canada and reflects his impression of differences between U.S. and Canadian society and how these differences have influenced attitudes and approaches to health care.

Mr. Stoughton mentioned three important aspects of Canadian society that have contributed to the development and success of the Canadian health system:

First, Canadians for the most part trust government and look to the government to provide social programs in the areas of health, education, and welfare;

Second, Canadians are prepared to pay for these social programs out of higher taxes. He noted that current income tax rates (combining Federal and provincial rates) are around 46–48 percent for the highest income brackets; and

Third, Canadians are strongly committed to achieving equity and universality in social programs. Canadians, he noted, value the collective good over the needs of the citizen.

Canada spends about 8.6 percent on its GNP on health care, compared to about 11.4 percent in the United States and 6.1 percent in Great Britain. Mr. Stoughton stated that there is universal access to health care and equity in the care provided in Canada today. Every individual in Canada can receive health services without concern about cost or payment for those services.

Not surprisingly, the health care system has become the most popular program provided through provincial governments, and, as a result maintaining and improving health services has become a highly politicized issue and one to which provincial governments are extremely sensitive.

Historically, Mr. Stoughton noted, health care financing in the United States and Canada was largely the same: private practice for physicians, fee-for-service payments for hospitals and doctors, and multiple payment schemes. In 1965, health care costs were about 6.1 percent of GNP in both countries. During the period that Medicare and Medicaid were being introduced in the United States,

Canada was introducing its universal health care system. Since enactment of the system, physician remunerations and hospital costs have been regulated by the Government. Physicians have continued to be paid fee-for-services, and hospitals have been paid on a prospective payment schedule by the Government.

In the case of hospitals, budgets are based on the previous year's expenditure plus an inflationary increase set by the Government and often less than the actual rate of inflation. Hospitals must present a special justification to the government to add new technologies. The effect of this has been to squeeze down medical costs. Canadian hospitals do not compete for patients. Indeed, as doctors treat more patients and use the hospital in the process, the hospital can potentially run a deficit since its budget is fixed. In short, hospitals have a financial incentive to control hospital admissions.

Not so for physicians, Mr. Stoughton noted. Doctors have an incentive to admit patients to hospitals, in part because most advanced medical technology is located in hospitals. Diagnostic and exploratory tests which are often performed in private physicians offices or on an out patient basis in the United States can only be done in hospitals in Canada. As a result, Mr. Stoughton noted, hospitals are overutilized. One of the negative features of the Canadian system is the unnecessary hospitalizations which occur simply to gain access to medical technologies.

While relatively slow introduction of new medical technologies has been one of the major criticisms of the Canadian health system, Mr. Stoughton noted that it was in part deliberate and a major cost control strategy. For example, in Ontario, a province of 9 million people, there are only 10 hospitals with tertiary cardiac care facilities. In Toronto, with 3 million people, three hospitals provide cardiac surgery and only one does heart transplants.

Mr. Stoughton contrasted this with the market-based approach in the United States where hospitals have had to open high technology cardiac care facilities as a status symbol and in order to compete. Not surprisingly, he noted, bypass surgery has been carried out three times as frequently in the United States as in Canada on a per capita basis (and 10 times more frequently than in Great Britain).

Mr. Stoughton noted that the Canadian system must guard against over controlling health care, as has happened in Great Britain, where long waiting times for health services are a problem. In Canada, patients generally wait one to three months and sometimes longer for elective heart surgery. Mr. Stoughton argued that when waiting times have become unacceptably long, the Canadian government has added resources, so that the system designed to "rationalize costs" has not become "rationed services."

Nevertheless, he noted, a negative effect of Canada's technology control strategy has been to create an environment where unnecessary hospitalization occurs just to get access to medical technology and where slow introduction of new technology (e.g., lithotripsy) perpetuates out-moded and less cost-effective medical procedures (e.g. stone surgery).

Recently, Canadian hospitals have started to take on an expanded role in providing ambulatory services, and Canada is encouraging a shift of ambulatory radiology, labs, and treatment services to

less costly settings. Even with this trend, Mr. Stoughton noted, the Canadian system remains unnecessarily dependent on in-patient care. The number of bed days per 1,000 population is around 1,300. Patients are put into hospitals for convenience and to provide more immediate access to technology. Physicians earn fees faster treating patients in hospital. He concluded that new incentives for both hospitals and physicians will need to be introduced if expansion of outpatient services is to occur in Canada.

In summing up, Mr. Stoughton noted that the Canadian health system was a success in terms of access, quality, and cost and that it was the most popular (and hence politically sensitive) social program in Canada. He said that more needed to be done to encourage out patient care and more emphasis needed to be given to the partnership of government, hospital, and the individual physician in Canada's health system.

In opening up the discussion, an American member asked about the proportion of health costs that the individual was expected to pay. Mr. Stoughton had noted that in the United States the government pays for about 40 percent of total health care costs; in Canada for 70 percent; and in Great Britain for 90 percent. What, the American member asked, is included in the 30 percent not covered by the Canadian government? Mr. Stoughton responded that the costs of dental care and drugs for those under age 65 were generally borne by the individual unless the individual also had employer provided benefits which covered costs of health services or drugs outside of the government system.

Another American asked about rural health care and whether access to health services in remote areas was a problem. Mr. Stoughton indicated, and a Canadian delegate agreed, that access to medical services in rural areas was a problem, but noted that the government operates transport systems or pays airfare to enable patients to reach medical centers for treatment.

In a followup question, an American member asked if an individual could buy better health care if he wanted to. If waiting times are a problem, is there anyway for an individual to pay to get to the "front of the line"? Mr. Stoughton said no. The only way to pay for faster service is to go abroad, and he cautioned that faster service may not be better quality service. Hospitals must do a sufficient number of medical procedures to stay current with the technology. Because of the concentration of high technology medicine in a limited number of hospitals and a backlog of patients waiting for procedures, staying current is not the problem in Canadian hospitals it may be in hospitals which perform fewer sophisticated procedures.

An American member asked if there was any private medical practice in Canada and was told that doctors are in private practice, but are paid by the Government. Mr. Stoughton noted that physicians are paid significantly less (one-third to one-fifth) than U.S. physicians for similar procedures and services, and that it is now illegal to bill outside the national health system. A Canadian delegate qualified this statement by adding that a physician could practice outside the system, but if he did his patients would not get reimbursed by the government. He noted that, unlike Great Britain, in Canada you are free to pick your own doctor. He also noted

that, before the health system came into effect, as much as 30 percent of medical bills weren't paid, and that physicians used to resort to collection agencies to obtain payment. Today physicians are paid less than their American counterparts, he noted, but they are paid.

An American delegate asked about proprietary hospitals in Canada, and was told that there were a few for services such as cosmetic surgery, which are not covered by the national health system. An American delegate also asked about the fee schedule for physicians. Mr. Stoughton stated that these fees are negotiated by each provincial government, noting that the Government has been especially effective keeping down costs that are not volume driven. By contrast, he noted, volume-driven reimbursements have grown rapidly. Doctors' payments are increasing 13 percent per year; private laboratory services are increasing 16 percent per year; and drug payments are increasing 22 percent per year.

In following up on a Canadian observation that fee schedules vary somewhat from province to province, an American asked whether this posed a problem in terms of getting medical personnel to work in lower paying areas, especially rural areas. The Canadians acknowledged that this could pose a problem, noting that there are incentive programs to encourage doctors to work in rural areas. In response to an American questions about variation in the costs and quality of each provincial health plans, several Canadian delegates indicated that there was some variation among the plans, but that it was relatively minor.

The discussion then turned to malpractice insurance and litigation, and the role of both in driving up health care costs. Americans asked whether it was more difficult to sue and get an award in a medical malpractice case in Canada than in the United States. A Canadian delegate noted that there had been some large medical settlements (13 settlements over $3 million in 1988) in Canada. He noted, nevertheless, that 50,000 of the 55,000 doctors in Canada do not carry medical malpractice insurance per se. They belong, instead, to the Canadian Medical Protection Association, paying annual fees of $500 to $10,000 depending on their specialty—far lower than insurance premiums paid by their U.S. counterparts. It was also noted that the Canadian Supreme Court recently indicated it would limit the size of malpractice awards for "pain and suffering." Mr. Stoughton offered the opinion that, because Canadians know that their medical expenses will be covered, they are less likely to litigate in the event of medical complications or personal injury.

One American member expressed his concern that the Canadian system was going to get more expensive and risked becoming over regulated, and that Canada was going to lose many of its good doctors to the United States. A Canadian delegate responded that many physicians had feared and opposed the national health system, but that, in fact, the system has not interfered with the doctor-patient relationship or with the doctor's decision-making authoirty. Noting that some doctors have expressed dismay at the latest Canadian Health Act, which has further reduced the flexibility of physicians to practice outside the system, the delegate nevertheless concluded that the system is working and that it would be

political suicide in Canada to propose changes that might reduce health benefits.

In concluding, a number of American members thanked the Canadians for the presentation. While not necessarily believing that the Canadian system offered all the solutions to the problems the United States is facing in containing health care costs and closing the gaps in health care coverage, the Americans noted that there were many important lessons to be drawn from the Canadian system and experience.

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